

MEDIA RELEASE

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Australian market for impact investments triples and is set for further growth: RIAA study

The market for impact investing - investments that deliver positive social or environmental impact alongside a financial return - is experiencing exponential growth in Australia, more than tripling over the past two years from \$5.7 billion to \$19.9 billion, finds a new study launched today by the Responsible Investment Association Australasia (RIAA).

The study, conducted for RIAA by Deakin University Business School, reveals the burgeoning appetite for impact investing, with Australian investors – from super funds to family offices - indicating they'd like to increase their allocation towards impact investments *more than fivefold* to \$100 billion over the next five years, and invest in clean energy, housing, health and wellbeing, education and conservation, among other themes.

“As evidence mounts that companies with better records on social issues, environmental sustainability and good governance are more resilient to COVID market turbulence, this study shows a market delivering strong financial returns, while also positively impacting the lives of tens of thousands of people, such as through employment pathways, education, and health services, as well as benefiting our environment” said Simon O’Connor, CEO of RIAA.

Benchmarking Impact: Australian Impact Investor Insights, Activity and Performance Report 2020, brings together two pieces of research: 1) a study of 125 Australian investors – including diverse types of investors and accounting for \$1,722 billion of the country’s assets under management and 2) a study of 111 impact investment products widely offered to Australian investors at 31 December 2019.

“Responsible investment has gained mainstream traction in financial markets and the next iteration will require investors to demonstrate the real-world outcomes they are generating through their investments.”

“There is now nearly \$20 billion of capital in Australia being put to work targeted at delivering impact that builds a better society and environment. Through this impact investing we are getting an insight into the potential of capital markets to shape with the kind of world we want to live in.”

“This study charts the significant growth in investor awareness and interest in impact investing over recent years, as Australian investors increasingly see the strong performance of many impact investment products, as well as respond to the increasing demand from their clients and customers for their money to deliver positive impact and avoid harm” said O’Connor.

The vast majority of impact investment products are dominated by green, social and sustainability bonds (\$17 billion), while the remaining \$2.9 billion in impact investments held by Australian investors comprise real assets (\$2.2 billion), private debt (\$287 million), public equity (\$195 million), private equity (\$97 million), social impact bonds (SIBs) (\$66 million) and others (\$44 million).

The reported social impact of these investments are diverse and include: 32,000 homes for people on low incomes, living with disability or transitioning out of homelessness; producing 84,000 GWh renewable energy; delivery of 788,000 healthcare treatments and mental health interventions, 446 jobs secured by candidates previously excluded from employment; training of 179,000 teachers; 37,856 homes provided with electricity, and saving, treating or delivering 483,235 mega-litres of water.

The Sustainable Development Goals are the most popular framework for measuring impact, highlighting the important role of finance can play in helping contribute towards achieving these important global goals. The most popular goals for investors and investment products are Goal 7: Affordable and clean energy; Goal 13: Climate action; and Goal 11: Sustainable cities and communities.

Benchmarking Impact 2020, supported by industry partner AMP Capital, as well as the Department of the Prime Minister and Cabinet, is the primary source of market-based data on the composition, growth and performance of Australian impact investment products, as well as the preferences, practices and intentions of Australian investors, both active and not yet active in impact investing.

"*Benchmarking Impact* is an important resource for both providers of capital and organisations exploring impact investment as a means to finance their work and increase their impact. The report demonstrates how the impact investment market is growing in Australia and sheds light on potential future demand. It also provides insights into the diversity of investable products, investment strategies and types of impacts being measured" said Emily Woodland, Head of Sustainable Investment, AMP Capital.

"*Benchmarking Impact 2020* confirms that activity and interest in impact investing continues to grow among Australian investors and provides insights not only about the shape and size of the market as it stands today, but also the motivations, drivers and challenges that must be overcome for impact investing to realise its future potential" said report author Fabienne Michaux, Professor of Practice (Finance), Deakin Business School.

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**For further information and to arrange an interview,
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About RIAA

- The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand, and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.
- With over 300 members managing more than \$9 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand.

Key study findings:

Market size

- The total value of impact investment products as at 31 December 2019 has risen 249% to \$19.9 billion (including \$8 billion in foreign domiciled products), from \$5.7 billion as at 31 December 2017.
- The total number of impact investment products as at 31 December 2019 is up 118% to 111 products, from 51 products as at 31 December 2017.
- Australian investors would ideally like to increase their proportional allocation towards impact investments more than fivefold to \$100 billion over the next five years (to 4% of assets under management – AUM – from 0.7% currently).

Asset classes

- Impact investment products widely offered to Australian investors are dominated by green, social and sustainability (GSS) bonds (\$17 billion or 85% of the product universe). The remaining \$2.9 billion in impact investments held by Australian investors comprise real assets (\$2.2 billion), private debt (\$287 million), public equity (\$195 million), private equity (\$97 million), social impact bonds (SIBs) (\$66 million) and others (\$44 million).

Environmental and social impact

- Investors generally don't mind whether their impact investments support the generation of social or environmental impacts.
- The vast majority – \$17.4 billion or 87% – of impact investments widely offered to Australian investors as at 31 December 2019 comprise products targeting environmental outcomes, a three-fold increase on the \$4.9 billion as at 31 December 2017.
- \$2.5 billion of the impact investments widely offered to Australian investors as at 31 December 2019 comprise products targeting social outcomes – a significant (10 times) increase on the \$242 million reported in the 2018 study.
- The majority of impact investment products as at 31 December 2019 is overwhelmingly directed towards conservation, environment and agriculture (\$16.8 billion or 84%), followed by multiple outcomes (\$1.8 billion or 9%), and housing and local amenity (\$766 million or 4%) and income and financial inclusion (\$327 million or 2%).
- In terms of future preferences of investors, clean energy (18%) and environment and conservation (14%) rate highest among respondents, followed by housing and homelessness (10%) education (8%), health (7%) and gender equality or economic opportunities for women (6%).

Financial performance

- The weighted average annualised returns (net of fees) during the study period (1 January 2018 to 31 December 2019) for impact investments ranged between 3.5% for private debt and 11.3% for public equity. GSS bonds averaged 5.1% p.a., while real assets returned 7.4% p.a. and SIBs returned 3.9% p.a.
- Investors report that overwhelmingly (92%) their impact investments are meeting or exceeding their financial return expectations.

Awareness and interest

- Investor awareness of impact investing has grown considerably among respondents not yet active in impact investing. 59% of respondents are aware or highly aware of impact investing compared with only 38% in the 2016 survey.
- Investor interest in impact investing has grown significantly. 61% of respondents not yet active in impact investing are interested or very interested in impact investing compared with 40% of respondents in the 2016 survey.

Investor motivations, preferences and barriers

- Achieving measurable social, environmental or cultural impact is the leading motivator for most active impact investors (76%), followed by mission alignment (60%) and financial returns (35%). Client/member/trustee demand is also an important motivator – especially for Investment Managers, Intermediaries & Advisers and Asset Owners.
- The three most important catalysts to enable active impact investors to increase their allocation to impact investing are: more investable deals, evidence of social impact and evidence of financial performance or a longer track record.

Measurement of impact

- Overwhelmingly, investors cite access to standardised and comparable tools and frameworks as the leading challenge to measuring and managing impact.
- The Sustainable Development Goals framework is the most widely used framework for measuring, managing and communicating impact.